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Report Highlights

Local Government Fiscal Distress Monitoring Report

June 2019

2018 Refinements to the Fiscal Distress Monitoring Model

Chapter 1 of the 2018 Virginia Acts of Assembly directs the Auditor of Public Accounts (Office) to establish a prioritized early warning system and annually monitor data and information from this system to identify potential fiscal distress within local governments across Virginia.

During 2018, the Office worked on several areas to improve the criteria and methodology in the fiscal distress early warning system, and enhance our overall approach to monitor localities using a financial ratio analysis along with an assessment of demographic and other qualitative factors.

- We are no longer using the prior year analysis when evaluating financial ratios for the localities, nor applying a calculated score as the threshold to determine additional follow up with a locality.
- We revised the 2018 ratio analysis to focus on a new methodology, to analyze each locality's ratio performance on an individual basis, and not compare the ratio results from one locality to another.
- The revised model calculates 12 key financial ratios and assigns a points-based evaluation according to each ratio's result. Points are assigned for each ratio according to how the ratio performs in general at a level of either strong, adequate, or weak. A higher number of points for each ratio, and in total for all ratios combined, indicates the locality is generally showing an undesirable performance.
- After analyzing each locality's points in the ratio analysis, we perform further qualitative analysis in a second assessment phase of our model for those localities that score a high number of points in total for the ratios.
- The second assessment phase reviews trends in key demographic factors, other local government assessments performed by state entities, and any external, economic, or other qualitative information specific to a locality.
- Based on the results of both the ratio and qualitative analyses, each locality is classified into either one of two categories: identified as needing further follow up with our questionnaire process, or not identified as needing any further follow up.

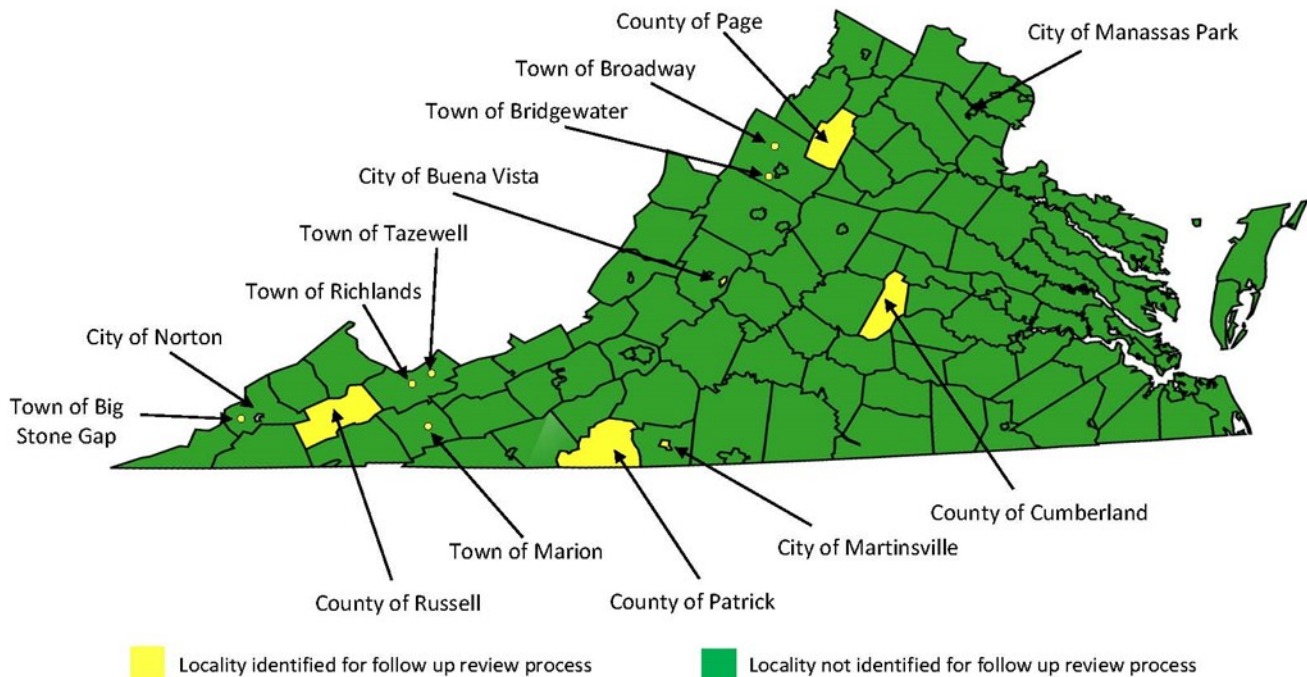
Follow Up Review Process

The Office's follow up process focuses on gaining additional information about a locality's financial position through the use of an assessment questionnaire and discussions with locality officials. The questionnaire is a key component of our follow up process to examine additional factors unique to each locality that are not easily measured in financial ratios, along with understanding local policy aspects that may contribute to the results of the ratio and qualitative analyses.

The primary objective of our follow up review is to determine if a locality is experiencing a situation of fiscal distress that warrants further assistance from the Commonwealth. If distress is identified at a locality, the Office formally notifies the Governor, Money Committees, and the locality, concerning the specific issues identified at the locality that may require further Commonwealth assistance. At that point, the Governor's office, in consultation with the Money Committees, will make any further decision of a plan or action by the Commonwealth for assistance to help address the locality's fiscal distress.

Localities Identified in 2018 Analyses and Results of Follow Up Reviews

During 2018, the Office performed the ratio analysis based on the audited fiscal year 2017 financial report data for the localities required to have an annual audit. We then performed our qualitative analysis of applicable localities identified in the ratio analysis as coming above our points threshold. After evaluating the localities in the ratio and qualitative analyses, we identified 14 localities, shown in the figure below, as needing further follow up review.



Source: Map created at mapchart.net©

For the 14 localities identified for follow up, the Office reviewed completed financial assessment questionnaires and held additional follow up discussions with 11 localities, which include the Cities of Manassas Park, Martinsville, and Norton; the Counties of Page, Patrick, and Russell; and the Towns of Bridgewater, Broadway, Marion, Richlands, and Tazewell. Based on our final reviews and follow up process with these 11 localities, the Office has concluded that they do not appear to be in a situation of fiscal distress that would warrant assistance from the Commonwealth. Accordingly, the Office has made no further notification or recommendation for any other locality relating to fiscal distress.

Our Office has deferred the follow up process until a later time during 2019 with the City of Buena Vista, County of Cumberland, and Town of Big Stone Gap. Officials for these three localities conveyed their desire to participate in our process; however, various factors have currently delayed the localities' completion of the assessment questionnaires. The Office has also continued to defer further follow up review at this time with the City of Hopewell, due to the city's delay in completing its fiscal year 2017 and 2018 annual financial reports as of the date of our report. The Office will resume our follow up process with these localities during our 2019 monitoring process and report accordingly when their reviews are complete.